

REPORT OF  
FINANCIAL EXAMINATION

HMO Missouri, Inc.

AS OF  
DECEMBER 31, 2004

STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI

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June 30, 2005  
St. Louis, Missouri

Honorable Kevin M. McCarty, Commissioner  
Office of Insurance Regulation  
Florida Department of Financial Services  
Chairman, Financial Condition (E) Committee, NAIC

Honorable Jorge Gomez, Commissioner  
Office of the Commissioner of Insurance  
State of Wisconsin  
Secretary, Midwestern Zone, NAIC

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

**HMO Missouri, Inc.**

hereinafter referred to as such or as "HMO-MO" or as the "Company." The Company's statutory home office is located at 1831 Chestnut Street, St. Louis, Missouri, telephone number (877) 864-2273. This examination began on January 24, 2005 and concluded on June 30, 2005.

**SCOPE OF EXAMINATION**

**Period Covered**

The last full scope association financial examination of the Company was made as of December 31, 2000, by examiners from the state of Missouri representing the Midwestern Zone

of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2001, through December 31, 2004, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination also included material transactions and/or events occurring subsequent to December 31, 2004.

## **Procedures**

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the state of Missouri prevailed.

The Missouri Department of Insurance engaged an independent actuary, Karen E. Elsom, FCAS, MAAA, with Lewis & Ellis, Inc., to perform a review of the Company's reserve calculations and reserving methodologies.

## **Comments - Previous Examination**

### *Comment: History (Management)*

The prior examination report noted that the Company provided a written agreement between HMO Missouri, Inc. and Healthy Alliance Life Insurance Company (HALIC) dated January 1, 1997, transferring the risk on out-of-network claims from HMO Missouri, Inc. to HALIC. However, no proof was provided to show that the contract had been filed with the

Missouri Department of Insurance. It was required that the agreement be filed with the Missouri Department of Insurance.

*Company Response:*

“HMO Missouri, Inc. markets an HMO POS product in its service area. To do so, HMO Missouri, Inc. entered into an agreement with HALIC on January 1, 1997, which transferred the risk on out-of-network claims to HALIC. Although we had believed that the agreement with HALIC had been filed with the MDI, we were unable to locate documentation of the filing. Therefore, in accordance with the MDI we will file the agreement. We believe this filing will satisfy the filing requirements of Section 382.195.1(3), RSMo and 20 CSR 400-7.”

*Current Findings:*

The Company filed the Out-of-Network Agreement with MDI on October 7, 2002. MDI issued a letter non-disapproving this agreement on February 13, 2003.

## **HISTORY**

### **General**

HMO Missouri, Inc. was incorporated as a health maintenance corporation on May 28, 1987 and at that time was 100% owned by the ultimate parent, Blue Cross and Blue Shield of Missouri, Inc. (a Missouri nonprofit health services corporation). HMO, Missouri, Inc. began operations in January of 1988, licensed under the Individual Practice Association form of health plan pursuant to Sections 354.400 to 354.550 RSMo. On January 11, 1998, a “Registration of Fictitious Name” was filed with the Secretary of State (of Missouri) to allow the Company to do business as “BlueCHOICE.”

On August 8, 1994, Blue Cross and Blue Shield of Missouri, Inc. (BCBSMO) completed a reorganization which included the initial public offering of RightCHOICE Managed Care, Inc. (RightCHOICE) and the transfer of the majority of the assets of BCBSMO to RightCHOICE in exchange for approximately 80% of the stock of RightCHOICE. In addition, BCBSMO no longer renewed any subscriber agreements in which HMO Missouri, Inc. or other subsidiaries were capable of renewing and providing the related managed care benefits.

Subsequent to the 1994 reorganization, the Missouri Department of Insurance (MDI) and the Missouri Attorney General's Office sued BCBSMO alleging that the reorganization and initial public offering constituted a "de facto conversion to a for-profit corporation." RightCHOICE and MDI reached a tentative settlement on April 22, 1998, whereby BCBSMO would be dissolved and the shares of RightCHOICE owned by BCBSMO would be contributed to a nonprofit healthcare foundation (Missouri Foundation for Health). In addition, BCBSMO paid the Missouri Foundation for Health \$12.8 million in partial satisfaction of claims by various parties. Insurance contracts in force underwritten or issued by BCBSMO were assumed by HMO-MO per an assumption agreement dated March 14, 2000. The transfer of liabilities was effectuated in November 2000.

On January 31, 2002, RightCHOICE completed a merger with WellPoint Health Networks, Inc. (WHN) and RWP Acquisition Corporation (a wholly owned subsidiary of WHN). WellPoint Health Networks, Inc. was created as a result of Blue Cross and Blue Shield of California's conversion from a nonprofit to a for-profit company. According to the terms of the merger, RightCHOICE and RWP Acquisition Corporation were merged with the new entity named RightChoice Managed Care, Inc. (RightCHOICE). MDI approved the acquisition by WHN on January 16, 2002.

On November 30, 2004, a merger was completed between Wellpoint Health Networks Inc. and Anthem, Inc. (an Indianapolis-based corporation). Anthem Inc. grew out of two corporations formed in 1944 and 1946 as mutual insurance companies (Blue Cross of Indiana and Blue Shield of Indiana). The merger between WHN and Anthem Inc. (a \$16.5 billion merger) created the nation's largest health insurer. The companies' agreement to merge was announced October 27, 2003. Under the terms of the agreement, WHN stockholders received \$23.80 in cash and one share of Anthem, Inc. common stock for each WHN share outstanding. Anthem Inc. (NYSE: ATH), the surviving corporate parent, was renamed WellPoint Inc.; its common stock is traded on the NYSE under the symbol WLP. WellPoint Inc. now serves approximately 28 million medical members through its Blue Cross or Blue Cross and Blue Shield operations in 13 states, and its non-Blue branded operations in other states. The company has more than 38,000 employees nationwide.

### **Capital Stock**

HMO Missouri, Inc. has the authority to issue 100,000 shares of \$10 par value common stock. There were 30,000 shares issued and outstanding on December 31, 2004, for a balance of \$300,000 in the Company's capital stock account. All 30,000 shares are owned by RightCHOICE Managed Care, Inc., an indirect subsidiary of WellPoint, Inc., the ultimate parent.

### **Dividends**

HMO Missouri did not pay any dividends during the examination period of January 1, 2001 to December 31, 2004.

## Management

The Company's Articles of Incorporation prescribe that the Corporation be managed by a board of directors, the number of which is not to be less than three, elected at each Annual Meeting of Shareholders. Directors serving at December 31, 2004 (according to the Company's 2004 Annual Statement) were as follows.

<u>Name</u>	<u>Location</u>	<u>Business Affiliation</u>
Angela F. Braly	St. Louis, MO	President and Chief Executive Officer Blue Cross Blue Shield of Missouri
David C. Colby	Indianapolis, IN	Executive Vice President and Chief Financial Officer WellPoint, Inc.
David R. Frick	Indianapolis, IN	Executive Vice President and Chief Legal and Administrative Officer WellPoint, Inc.

The officers appointed and serving as of December 31, 2004, according to the Company's 2004 Annual Statement were as follows:

<u>Name</u>	<u>Office</u>
Angela F. Braly	President
David C. Colby	Chief Financial Officer
Nancy L. Purcell	Secretary
Robert D. Kretschmer	Treasurer
David M. Henley	Assistant Secretary
Michael C. Wyatt	Assistant Secretary

**Conflict of Interest**

The Company has a corporate policy requiring conflict of interest disclosure statements to be executed annually by all board members and officers. A review of the conflict of interest disclosure statements indicated no material conflicts for the calendar years 2001 and 2003. It was noted that the Company could not provide documentation to show that all officers and directors had completed conflict of interest disclosure statements for the years 2002 and 2004. The Company should require officers, directors and key employees to complete conflict of interest disclosure statements on an annual basis and should retain copies of these statements in their corporate records to illustrate that this procedure is being performed.

**Corporate Records**

The Articles of Incorporation and the Bylaws were reviewed. Various amendments to the Bylaws were made during the period under examination, such as setting the date of the annual board of directors meeting.

The minutes of the meetings of the shareholder and board of directors were reviewed for the period under examination. The board of directors acknowledged their review of the 2000 Missouri Department of Insurance (MDI) Report of Financial Examination in October 2002.

The Company was unable to provide examiners with copies of, or access to, all board of directors minutes and shareholder minutes. In the case of shareholder minutes, no documents could be provided relating to meetings after May 2002. The members of the board of directors have changed significantly since the last documented election, an act which requires a majority vote of the shareholders. In addition, the Company could not produce board of director's minutes subsequent to May 2004. The Company's elected officers have changed since the May 2004

meeting, however no documentation could be produced to illustrate that the board approved these elections. The lack of availability of these corporate documents suggests a significant weakness by those most responsible for managing the affairs of the corporation. The Company is directed to ensure that appropriate action is taken to address this weakness both in documenting the approval of these prior acts and ensuring future acts are approved by the board of directors / shareholder as required in the Company's own governing documents.

### **Acquisitions, Mergers and Major Corporate Events**

HMO Missouri, Inc. was not a direct party in any acquisition, merger or major corporate events during the current examination period. The Company's parent, however, was involved in multiple significant transactions. See the History "General" subsection for further information.

### **Surplus Debentures**

In March 1998, the Company issued a \$18,000,000 surplus note payable to its parent, RightCHOICE Managed Care, Inc., with a due date of April 1, 2003. The due date was subsequently changed to December 31, 2005. As of December 31, 2004, accrued interest of \$5,388,386 had accumulated to bring the total amount reported in the 2004 Annual Statement to \$23,388,386. The Company's reporting of accrued interest is in compliance with 20 CSR 200-1.070(5)(c) Subordinated Indebtedness. On June 8, 2005, the Company filed a Form D with the Missouri Department of Insurance requesting approval to repay \$14,000,000 of the notes.

## **AFFILIATED COMPANIES**

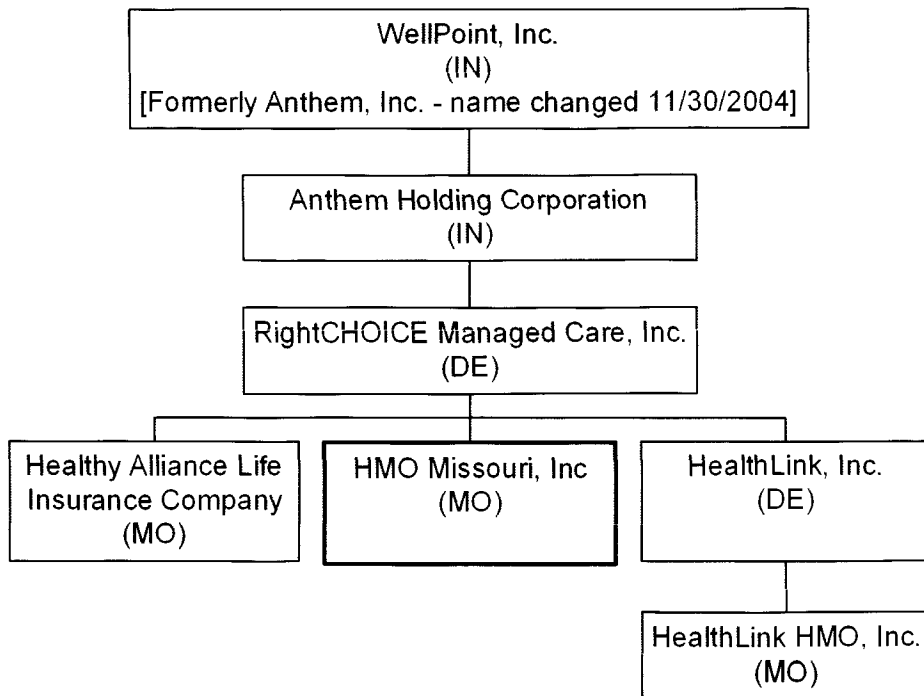
### **Holding Company, Subsidiaries and Affiliates**

The Company is a member of an insurance holding company system as defined by

Section 382.010 RSMo (Definitions), with Wellpoint, Inc. designated as the ultimate controlling entity in the insurance holding company system. Wellpoint, Inc.'s is a publicly held corporation headquartered in Indianapolis, Indiana. The common stock of Wellpoint, Inc. is traded on the New York stock exchange under the symbol WLP. No one party owns 10% or more of the voting securities of Wellpoint, Inc.

#### Organizational Chart

The following is a portion of the entire Wellpoint, Inc. organizational chart. Only companies directly related to HMO Missouri, Inc., other Missouri domestic insurers, and companies with which HMO-MO has direct management or reinsurance contracts are included. All companies are 100% owned by their immediate parent unless otherwise noted.



### Affiliated Transactions

HMO Missouri, Inc. is party to the following agreements with affiliates. All agreements noted below, that originated during or subsequently to the examination period, were reviewed and approved by the Missouri Department of Insurance.

1.   Type:       *Master Service Agreement and Attachment WLPRT-1*  
Parties:       WellPoint, Inc. and subsidiaries or affiliates  
Effective:     Effective January 1, 2003; Non-disapproved by MDI May 28, 2003  
Terms:
  - RightChoice, Inc. and BlueCross of California provide administrative services on behalf of Healthy Alliance Life Insurance Company and HMO Missouri, Inc.
  - Certain WellPoint, Inc. affiliates also provide limited services on behalf of the Missouri domestics.
  - Pharmacy benefit services are provided by Professional Claims Services, Inc. and Precision Rx (mail order prescriptions).
  - CostCare, Inc. and SellCore, Inc. provide utilization services and telecommunications consulting services on behalf of HMO Missouri and HMO-MO respectively.
  - Employees of BC Life & Health Insurance Company , Unicare Life & Health Insurance Company and Greater Georgia Life Insurance Company assist HMO-MO in developing life products.
  - Additional services may be requested by HMO-MO, HMO Missouri, Inc. or Health Link HMO from WellPoint affiliates.
  - HMO-MO, HMO Missouri, Inc. and HealthLink HMO reimburse companies providing services under this agreement for direct and allocated costs incurred through Wellpoint, Inc.
  
2.   Type:       *Out of Network Agreement and First Amendment*  
Parties:       Healthy Alliance Life Insurance Company and HMO Missouri, Inc.  
Effective:     Effective January 15, 1997; Submitted to MDI September 20, 2002, non-disapproved February 13, 2003  
Terms:        HALIC provides out of network coverage to enrollees of HMO Missouri, Inc. who choose an out of network (or point of service) option. HMO Missouri, Inc. pays HALIC a per member per month amount (determined on a quarterly basis, based on underwriting, actuarial and historical claims information).

3. Type: *Stop-Loss Coverage Agreement*  
Parties: Healthy Alliance Life Insurance Company and HMO Missouri, Inc.  
Effective: Effective as of the date of each underlying Administrative Service Only agreement; Non-disapproved by MDI October 1, 2002  
Terms: HALIC provides stop loss coverage to certain administrative services only clients of HMO Missouri, Inc. as required under the administrative services agreements between HMO Missouri, Inc. and plan sponsors as set forth on the sponsor's retention schedule.
4. Type: *Tax Allocation Agreement*  
Parties: Eligible WellPoint, Inc. subsidiaries  
Effective: Effective January 31, 2002; Non-disapproved by MDI November 5, 2002  
Terms: The RightChoice Managed Care, Inc. subsidiaries participate in the filing of a consolidated federal income tax return with WellPoint, Inc. and its other subsidiaries. The consolidated tax liability allocated to the companies is limited to their separate tax return tax liability. Companies are reimbursed for any deductions, net operating losses and credit used by the consolidated group. Estimated tax payments and settlements are made through the intercompany accounts of subsidiaries.
5. Type: *Guarantee and Conversion Agreement*  
Parties: WellPoint and HMO Missouri, Inc.  
Effective: Dated January 31, 2002; Non-disapproved by MDI January 17, 2002  
Terms: WellPoint agrees to guarantee to the full extent of its assets all of the contractual and financial obligations of HMO-MO. In the event that HMO-MO ceases operations, WellPoint or one of its licensed affiliates will provide coverage to the policyholders of HMO-MO without consideration of health status.

#### **FIDELITY BOND & OTHER INSURANCE**

HMO Missouri, Inc. is a named insured on a \$20,000,000 fidelity policy, with a \$250,000 deductible, issued to Wellpoint, Inc.. The fidelity bond meets the suggested minimum coverage of the NAIC and the requirements of Section 354.425 RSMo "Surety bond requirements."

The Company is also a named insured on policies taken out by WellPoint, Inc. for the following types of coverage: general liability, workers' compensation, professional liability, commercial property, commercial automobile, errors and omissions, terrorism, umbrella, and directors and officers liability. Wellpoint, Inc. appears to provide adequate coverage for HMO Missouri, Inc.'s exposed risk.

### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company has no employees. All personnel services are provided by subsidiaries of Wellpoint, Inc. through the Master Service Agreement. WellPoint, Inc. provides its employees with benefits such as vacation and insurance products comparable to the benefits provided by other companies in the insurance industry.

### **STATUTORY DEPOSITS**

#### **Deposits with the State of Missouri**

The funds on deposit with the Missouri Department of Insurance as of December 31, 2004, as reflected below, were sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with Section 354.410 RSMo "Trust deposits."

<b><u>Type of Security</u></b>	<b><u>Par Value</u></b>	<b><u>Market Value</u></b>	<b><u>Statement Value</u></b>
US Treasury Notes	<u>\$324,000</u>	<u>\$332,304</u>	<u>\$329,278</u>

#### **Deposits with Other States**

The Company is also licensed in the state of Illinois. Funds on deposit with the state of Illinois as of December 31, 2004, were as follows.

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Notes	\$100,000	\$99,133	\$100,017
FHLMC	<u>210,000</u>	<u>208,476</u>	<u>209,249</u>
Total	<u>\$310,000</u>	<u>\$307,609</u>	<u>\$309,266</u>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operation**

#### General

HMO Missouri, Inc. is licensed in Missouri under Section 354.400 – 354.550 RSMo (Health Maintenance Organizations) and is organized as an individual practice association model. The Company is also licensed in Illinois. The Company offers services to approximately 122,300 HMO and Point of Service (POS) members, including approximately 8,900 on a self-funded basis, in sixty-two counties in Missouri and two counties in Illinois.

#### Marketing

The Company's BlueCHOICE POS product is offered in metropolitan St. Louis, southwest Missouri, portions of southeast Missouri, and central Missouri through the BlueCHOICE HMO network. The BlueCHOICE network supports the following HMO and POS products:

- *BlueCHOICE Value* - a gatekeeper HMO product. A gatekeeper is a primary care physician who refers the patient to a specialist if necessary.
- *BlueCHOICE Standard* – a gatekeeper HMO product (co-pays differ from BlueCHOICE Value)
- *BlueCHOICE POS* – a gatekeeper model point of service (POS) plan that includes a gatekeeper as the primary care physician and allows members to go outside of the network with higher out-of-pocket costs subject to a deductible and coinsurance.

- *HealthNet Blue POS* – a non-gatekeeper POS product available to groups within seven counties of the Southeast Missouri area. This product is not actively sold.
- *BlueCHOICE Senior* – HMO Medicare product that provides medical benefits for persons eligible to receive Medicare at no or minimal cost to the member. The Company exited the market for this product in December 2000.
- *Blue Cross and Blue Shield Service Benefit Plan* - The Company provides PPO benefits to federal employees and retirees under the Federal Employee Program, an arrangement between the Blue Cross Blue Shield Association and the United States Office of Personnel Management.
- The Company also provides administrative services only (ASO services) for self-insured employers or other groups. Stop-loss coverage is provided through Healthy Alliance Life Insurance Company for some of the self-insured groups.

#### **Provider Contracts; Grievance Procedures; Quality Assurance, Utilization Review and Provider Credentialing**

The Missouri Department of Insurance has a Market Conduct staff that performs a review of these issues and generates a separate Market Conduct report. The most recent Missouri Market Conduct examination covered the period of January 1, 2000 through December 31, 2000, and was completed on June 13, 2002. The examination disclosed several non-compliance issues subject to penalty, none of which had a material effect on the financial condition of the Company.

### **REINSURANCE**

#### **General**

Premiums reported during the period under examination were as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Direct Business	\$ 160,895,801	\$ 222,115,479	\$ 257,850,933	\$ 279,918,106
Reinsurance Ceded	<u>(264,765)</u>	<u>(54,156)</u>	<u>(6,237,289)</u>	<u>(7,032,214)</u>
Net Premium Written	<u>\$ 160,631,036</u>	<u>\$ 222,061,323</u>	<u>\$ 251,613,644</u>	<u>\$ 272,885,892</u>

**Assumed Reinsurance**

None

**Ceded Reinsurance****Healthy Alliance Life Insurance Company**

The Company entered into a stop loss reinsurance agreement with Healthy Alliance Life Insurance Company effective January 1, 1999. Under this contract the Company cedes 100% of policies written by HMO Missouri, Inc. which are out of its network to HALIC. The Company paid premiums of \$7,032,214 in 2004 related to this agreement.

**ACCOUNTS AND RECORDS****General**

The Company maintains its general ledger with the Peoplesoft General Ledger software system. The general ledger is maintained at Wellpoint, Inc.'s facility in California. The "Facets" software system is used to track the majority of the Company's premium, enrollment, eligibility and claims information.

**Independent Auditor**

The Company's financial statements were audited by the CPA firm PricewaterhouseCoopers LLP as part of the WellPoint, Inc. company-wide audit for the years ending 2000 to 2004. A review was made of the workpapers related to the last CPA audit. Limited use of these workpapers and reports were used in the course of this examination as deemed appropriate.

**Independent Actuary**

Claims related reserves and other actuarial items are reviewed and certified by Cynthia S. Miller, FSA, MAAA, Vice President and Corporate Actuary of WellPoint, Inc., the ultimate parent of HMO Missouri, Inc. Consulting actuary, Karen E. Elsom, FCAS, MAAA, with Lewis & Ellis, Inc., was retained by the Missouri Department of Insurance to review the adequacy of reserves and other related liabilities.

**FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. The failure of any column to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

## ASSETS

	<u>Ledger &amp; Non- Ledger Assets</u>	<u>Assets Non-Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 55,689,180		\$ 55,689,180
Cash and short-term investments	4,659,917		4,659,917
Receivable for securities	10,253		10,253
Investment income due and accrued	466,503		466,503
Premiums in course of collection	13,712,133	6,658	13,705,475
Amounts receivable related to uninsured plans	624,686		624,686
Current federal income tax recoverable	843,424		843,424
Net deferred tax asset	1,957,398	315,975	1,641,423
Receivable from affiliates	597,116		597,116
Health care receivable	2,429,641	37,907	2,391,734
State tax Receivable	15,784		15,784
Accrued account receivable fees	31,500		31,500
Other assets	<u>8,378</u>		<u>8,378</u>
<b>Total Assets</b>	<b><u>\$ 81,045,913</u></b>	<b><u>\$ 360,540</u></b>	<b><u>\$ 80,685,373</u></b>

## LIABILITIES, SURPLUS AND OTHER FUNDS

	<u>Current Year</u>
Claims Unpaid	\$ 25,188,426
Accrued medical incentive pool and bonus amounts	1,322,946
Unpaid claims adjustment expenses	927,457
Aggregate health policy reserves	781,154
Aggregate health claim reserves	341,357
Premium received in advance	2,445,138
General expenses due or accrued	2,864,660
Remittances and items not allocated	84,850
Amounts due to affiliates	2,840,414
Liability for amount held under uninsured health plans	354,962
Escheatable funds	865,579
Other liabilities	<u>318,487</u>
<b>Total Liabilities</b>	<b><u>\$ 38,335,430</u></b>
Common capital stock	\$ 300,000
Surplus notes	23,388,386
Unassigned funds (surplus)	<u>18,661,557</u>
<b>Surplus as regards policyholders</b>	<b><u>\$ 42,349,943</u></b>
<b>Total Liabilities and Surplus</b>	<b><u>\$ 80,685,373</u></b>

## STATEMENT OF INCOME

Net premium income	\$ 272,885,892
Change in unearned premium reserves and reserve for rate credits	<u>(40,596)</u>
<b>Total Revenues</b>	<b>\$ 272,845,296</b>
 Hospital/medical benefits	 \$ 118,392,341
Other professional services	8,398,257
Emergency room and out-of-area	8,671,167
Prescription drugs	42,476,400
Other outpatient costs	46,130,126
Vision	2,022,813
Incentive pool, withhold adjustments and bonus amounts	<u>1,956,921</u>
Subtotal Hospital and Medical Benefits	\$ 228,048,025
Net reinsurance recoveries	(5,705,262)
Claim adjustment expenses	4,040,746
General administrative expenses	<u>26,779,030</u>
<b>Total Underwriting Deductions</b>	<b>\$ 253,162,539</b>
 <b>Net Underwriting Gain or (loss)</b>	 <b>\$ 19,682,757</b>
 Net investment income earned	 \$ 2,414,620
Net realized capital gains or (losses)	<u>(216,250)</u>
<b>Net Investment Gains or (Losses)</b>	<b>\$ 2,198,370</b>
 <b>Miscellaneous Other Income (Expense)</b>	 <b>\$ (245,639)</b>
 <b>Net Income or (Loss) Before Federal Income Taxes</b>	 <b>\$ 21,635,488</b>
 Federal and foreign income taxes incurred	 <u>(7,430,049)</u>
 <b>Net Income (Loss)</b>	 <b><u>\$ 14,205,439</u></b>

## CAPITAL AND SURPLUS

	<u>Current Year</u>
Surplus as regards policyholders, December 31, 2003	\$ 42,384,650
Net income or (loss)	14,205,439
Change in net deferred income tax	(893,045)
Change in nonadmitted assets	793,384
Change in surplus notes	(13,601,869)
Interest on surplus notes	(538,616)
Change in surplus as regards policyholders	\$ <u>(34,707)</u>
<b>Surplus as regards policyholders, December 31, 2004</b>	<b>\$ <u>42,349,943</u></b>

## **EXAMINATION CHANGES**

None

## **NOTES TO FINANCIAL STATEMENTS**

None

## **GENERAL COMMENTS AND/OR RECOMMENDATIONS**

### Conflict of Interest

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The Company could not provide documentation to show that all officers and directors had completed conflict of interest disclosure statements for the years 2002 and 2004. The Company should require officers, directors and key employees to complete conflict of interest disclosure statements on an annual basis and retain copies of these statements in their corporate records to illustrate that this procedure is being performed.

### Corporate Records

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The Company was unable to provide examiners with copies of or access to all board of directors minutes and shareholder minutes. We direct the Company to ensure that appropriate action is taken to address this weakness both in documenting the approval of these prior acts and ensuring future acts are approved by the board of directors / shareholder as required in the Company's own governing documents.

## **SUBSEQUENT EVENTS**

As of year-end 2004, the Company had issued a surplus note of \$18,000,000 payable to its parent, RightCHOICE Managed Care, Inc., with a due date of June 1, 2005. The due date has subsequently been extended to December 31, 2005. In addition, the Company filed a Form D on June 8, 2005, requesting approval to repay \$14,000,000.

In July 2005, WellPoint, Inc. and subsidiaries agreed to pay up to \$198 million to settle two nation-wide class-action lawsuits regarding alleged unfair payment practices with providers. WellPoint, Inc. has agreed to pay \$135 million to doctors and contribute \$5 million to a nonprofit foundation aimed at improving health care for the disadvantaged. WellPoint, Inc. will also pay legal fees to be determined by the court of up to \$58 million. HMO Missouri, Inc.'s portion of this settlement is estimated to be approximately \$1.4 million. Disclosure regarding this litigation was included in the Company's Holding Company Registration Statements and the 2004 Annual Statement (described as *Shane v. Humana , et al*).


## ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of HMO Missouri, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, James Simmerman, CFE, John Boczkievicz, CPA, CFE, Thomas Cunningham, CPA, CFE, Arthur L. Palmer, AFE, and Richard Stamper, CFE examiners representing the Missouri Department of Insurance, participated in this examination. MDI also engaged an independent actuary, Lewis and Ellis, Inc., to perform a review of the Company's reserve calculations and reserving methodology.

## VERIFICATION

State of Missouri                )  
  ) ss  
County of St. Louis City)

I, Michael R. Shadowens, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

  
Michael R. Shadowens, CFE  
Examiner-in-Charge  
Missouri Department of Insurance

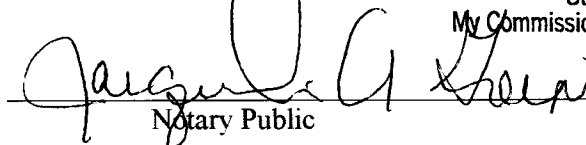
Sworn to and subscribed before me this 17<sup>th</sup> day of August 2005.

My commission expires:

JACQUELINE A. GREEN  
Notary Public - Notary Seal  
STATE OF MISSOURI  
St. Louis County

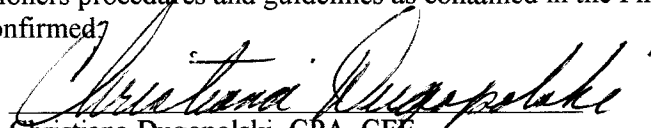
My Commission Expires March 22, 2008

My Commission Expires March 22, 2008  
St. Louis County  
STATE OF MISSOURI  
Notary Public - Notary Seal  
JACQUELINE A. GREEN

  
Notary Public

## SUPERVISION

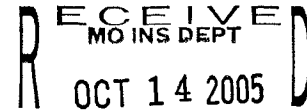
The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

  
Christiana Dugopolski, CPA, CFE  
Audit Manager, St. Louis  
Missouri Department of Insurance  
Midwestern Zone, National Assoc. of Ins. Commissioners



October 6, 2005

Mr. Kirk Schmidt, CFE, CPA  
Chief Financial Examiner  
Department of Insurance  
P.O. Box 690  
Jefferson City, Missouri 65102-0690



VIA CERTIFIED U.S. MAIL

Re: HMO-Missouri, Inc.  
Financial Examination Report Dated June 30, 2005

Dear Mr. Schmidt:

Enclosed please find HMO-Missouri, Inc.'s (the Company) responses to the recommendations made by your office with respect to the financial examination report for the year ended December 31, 2004 received September 10, 2005. We have reviewed the report and accept the report as is, including those recommendations included on pages 21-22 of the report. We wish to have our responses included in the report as a public document.

Please do not hesitate to contact me if you have any questions relating to these responses.

Sincerely,

A handwritten signature in cursive script that reads "Brian K. Ollech".

Brian K. Ollech  
Director, Financial Reporting  
WellPoint, Inc.  
Phone: (414) 226-5882  
Fax: (414) 226-6500

Enclosure

cc: Stuart Campbell  
Pamela Whitelock  
Brenda Buss

David Henley  
Nancy Purcell  
Joseph Tauber

## HMO-Missouri, Inc.

### Examination Report as of December 31, 2004 Responses to Recommendations

1. **Page 26 – Conflict of Interest**— It is recommended that the Company require officers, directors and key employees to complete conflict of interest disclosure statements on an annual basis. The Company should retain copies of these statements in their corporate records to illustrate that this procedure is being performed..

**Response:** The Company agrees with the recommendation above and enhanced the process in 2003. Annually, the Company completes a Conflict of Interest (COI) disclosure survey to ascertain if any conflicts exist with the insurer's Directors, Officers, and key employees. These COIs are initially reviewed by the Company's Ethics and Compliance department. The Company will continue to annually distribute these respective COI surveys to employees, officers and directors. The exceptions noted by the DOI for the 2004 review occurred since the exam was conducted during the timeframe of when the 2004 COI disclosure surveys were beginning to be collected. These exceptions were not related to the company's documented process.

2. **Page 26 – Corporate Records**— The Company is directed to ensure that appropriate action is taken to address this weakness both in documenting the approval of these prior acts and ensuring future acts are approved by the board of directors / shareholders as required in the Company's own governing documents.

**Response:** The Company agrees with the recommendation above. The Company will ensure that documentation of the approval of the items noted in examination are approved by the board of directors / shareholders. In addition all future acts requiring board of directors / shareholders will be obtained and documented by Corporate Legal department in accordance with the Company's governing documents.